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ARIZONA STATE UNIVERSITY ■ COLLEGE OF BUSINESS
BUREAU OF BUSINESS AND ECONOMIC RESEARCH

Quarterly Economic Forecast Update

Outlook for 1986 Brightens

The first convincing indications of an end to the growth recession that plagued the national economy through the last half of 1984 and all of 1985 have been measured. While national leading indexes began to signal an upturn in economic activity last summer, coincident indicators did not show such advances until the end of the year. In particular, industrial production and employment/unemployment figures reflected the progress.

The slowdown hampered the Arizona economy from late 1984 through 1985. Improving national conditions should be paralleled in Arizona, though perhaps to a lesser degree. A surge to boom conditions is unlikely. Before examining national and state prospects for 1986, a review of 1985 is presented, including the accuracy of the Bureau's forecasts.

1985 FORECAST ACCURACY

With the exception of personal income and Gross State Product (GSP), complete data for 1985 were available when this article was written on March 1. Tables 1 and 2 compare the data to Bureau projections. Forecasts prepared under the current format have been issued every three months for one year; an earlier prognostication made in late 1984 was somewhat less accurate.

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'86 Real Estate Market Outlook

Activity Expected To Remain Stable at High Level

The 1986 metropolitan Phoenix real estate market should remain stable, with activity expected to vary little from the high levels of 1985. This outlook represents the consensus opinion of four real estate groups in Maricopa County: homebuilders, financial services (banks, savings and loan associations, and mortgage bankers), real estate brokerages (commercial and residential), and "other" entities (appraisal, development, title insurance and property management firms, and government). They were surveyed during December

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TABLE 1
ECONOMIC FORECAST ACCURACY
Arizona, 1985

	Actual	Date of Forecast 1/1/84	3/1/85	6/1/85	9/1/85
Gross State Product Real Percent Change	6.1[P]	7.5	7.2	7.2	6.2
Personal Income Current Percent Change	9.0[P]	10.8	10.1	10.1	9.6
Retail Sales Current Percent Change	8.9	10.0	10.0	10.0	9.0
Unemployment Rate Percent	6.5	4.7	5.7	5.7	6.5
Wage and Salary Employment Percent Change	8.2	6.7	5.8	5.8	6.3
Population Number in Thousands	3,226[P]	3,211	3,210	3,210	3,210
New Single Family Housing Number of Units Permitted	33,271	NA	28,250	29,000	32,950
New Multifamily Housing Number of Units Permitted	37,312	NA	23,775	30,000	30,000
Value of Building Permits Current Dollars in Millions	5,449	NA	4,425	4,800	5,250

P = Projected
NA = Not Available

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

TABLE 2
ECONOMIC FORECAST ACCURACY
Maricopa County, 1985

	Actual	Date of Forecast 11/1/84	3/1/85	6/1/85	9/1/85
Consumer Price Index Percent Change	5.0	5.7	5.7	5.7	6.0
Retail Sales Current Percent Change	12.9	NA	10.3	10.4	10.4
Unemployment Rate Percent	5.1	NA	4.5	4.5	4.8
Wage and Salary Employment Percent Change	9.1	NA	6.5	6.5	7.1
Population Number in Thousands	1,811[P]	NA	1,810	1,810	1,810
New Single Family Housing Number of Units Permitted	23,143	20,000	19,000	20,000	21,750
New Multifamily Housing Number of Units Permitted	27,271	15,000	15,000	20,000	22,500
Value of Building Permits Current Dollars in Millions	4,013	NA	3,100	3,500	3,700

P = Projected
NA = Not Available

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

"Economy," from page 1

GSP and Personal Income

Forecasts in these series were consistently too optimistic, compared to the latest projections based on three quarters of available data. However, personal income estimates for 1985 probably will be revised up by the U.S. Bureau of Economic Analysis, since employment figures recently were increased substantially by the Arizona Department of Economic Security (DES). Thus, the early predictions for GSP and personal income may turn out to be accurate; recent projections were lowered to reflect the available data.

Employment and Population

The unemployment rate is the other indicator on which the Bureau was too optimistic. Sharp increases in the rate during the first few months of 1985 were not foreseen. Further, the recent DES revision placed the unemployment rate even higher than originally reported.

Estimates of employment growth, on the other hand, turned out to be pessimistic, again because of the DES revision. Forecasts for both Arizona and Maricopa County growth were quite close to the originally reported data.

Because of the absence of actual counts, the population projections cannot be completely evaluated. However, the 1985 special census of Maricopa County, conducted in the fall, provided a "preliminary final" count of 1.83 million residents. The Bureau forecast of the special census population was within 5,000 people (see the January 1985 *Arizona Business*).

TABLE 3
FORECAST OF KEY NATIONAL INDICATORS

	Actual 1984	Actual 1985	Annual Average Percent 1986 Forecast Scenarios: Control	Optimistic	Pessimistic
Real Gross National Product	6.5	2.3	3.5	4.5	2.7
Consumer Price Index	4.3	3.6	3.5	2.5	4.3
Unemployment Rate	7.5	7.2	6.7	6.5	7.2

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

Retail Sales and Inflation

The retail sales figure previously reported by the Bureau was a comprehensive measure including grocery store sales. In mid-year 1985, however, the Arizona Department of Revenue stopped data collection of grocery store sales of food items, since these items had not been taxed for five years. Historical growth rates of the new series that excludes food sales are not equivalent to the original series, biasing the accuracy comparison for 1985.

The near absence of inflation in the Phoenix area during the second half of 1985 lowered the rate well below the Bureau's predictions. At 5 percent, the rate was nearly one percentage point lower than in 1984.

Real Estate

Two factors largely explain the Bureau's underestimates of the number of new housing units permitted and the total value of building permits. First, interest rates declined throughout 1985, boosting residential construction. Second, commercial construction, particularly of office buildings and apartments, did not decline as much as expected. High vacancy rates did not preclude new construction as anticipated, and a proposed tax law that would have slowed development never passed.

1986 NATIONAL FORECAST

High interest rates, a large budget deficit and a ballooning trade deficit limited the economic expansion during 1984 and 1985. Progress on each problem is likely to accelerate economic growth during 1986.

By maintaining an accommodative policy throughout 1985, the Federal Reserve Board allowed the money supply to rise rapidly and interest rates to fall. Due to the typical lag, the benefits of these actions were just beginning to be felt at the end of 1985. The failure of inflation to reignite, combined with the sharp drop in oil prices, added downward pressure on interest rates.

After peaking in March 1985, the dollar has fallen substantially, particularly since September when a coordinated effort began to force its decline. Because of the usual lag time, a reduction in the trade deficit has yet to appear, but optimism about a U.S. industrial revival already has been reflected in industrial production.

Optimism is also widespread concerning the budget deficit because of the Gramm-Rudman measure. The lack of concrete results and the possibility of its failure to achieve results suggest that the recovery probably will not be as great as signaled by the leading indicators.

While the national Index of Leading Economic Indicators rose steadily throughout the second half of 1985, only one-half of the components participated in the gains. The stock market and the money supply provided the biggest contributions. Other components that are more directly related to production also advanced, including the average workweek, change in inventories, and the level of building permits. However, indicators such as new orders, vendor performance and unemployment insurance claims rose minimally.

The many bright spots that have appeared recently almost ensure that growth in the 1986 GNP will be more rapid than the weak 2.3 percent of 1985. Enough problems remain, however, to suggest that the better performance will be short-lived and/or modest in magnitude.

Control Forecast

The basic scenario assumes no major change in existing economic and political conditions through most of 1986. Oil prices are presumed to stabilize between $15 and $20 a barrel, providing both a stimulus to the economy and a downward influence on inflation, particularly during the next few months.

Meanwhile, the Federal Reserve Board is balancing demands to loosen monetary policy to accommodate potential reductions in federal spending against the urge to tighten it, given rapid money supply growth and accelerating economic expansion. They are expected to maintain a relatively steady policy. Comparatively stable interest rates should result, but additional declines could be prompted by lowered inflationary expectations.

The dollar should continue a controlled decline of modest proportions, allowing U.S. industry to improve its competitive position internationally and reducing the trade deficit. This scenario also assumes modest action by Congress to reduce the federal deficit — not enough to meet the Gramm-Rudman goal but enough not to crush optimism.

A noticeable improvement in general economic conditions during the first half of 1986 should result. Although a reduction in the trade deficit should require several months to develop, anticipation of improved competitiveness through inventory building should provide an earlier, rather than later, boost to the economy. In conjunction with existing optimism and low oil prices, economic growth probably will be faster in the first half of 1986 than in the second half. While a brief surge to a 5 percent or greater annual rate is possible, average GNP growth for the year should be near 3.5 percent (see Table 3).

Inflation should slow during the first half of 1986, then accelerate in the second half, averaging less than 4 percent for the fourth consecutive year. The unemployment rate should drop slightly prior to stabilizing and then rising late in 1986. All of these conditions are more optimistic than presented three months ago because of the continuing fall of the dollar and declining oil prices.

By 1987, this scenario assumes that oil prices and inflation in general will rise, prompting the Federal Reserve to adopt a tighter monetary policy. While the economy will not have overheated to the extent of some prior cycles, this tightening and the expansion's age should precipitate a mild recession by late 1987. By then, the period of growth will have matched the length of the longest peacetime expansion.

Optimistic Scenario

One or more conditions could stimulate economic performance beyond the levels suggested in the control forecast, particularly late in 1986 and into 1987. For example, inflation could decline further and remain lower if oil prices do not recover and if slack in the international economy

slows the acceleration in inflation that is expected from the ameliorated trade situation. Lower inflation could lead to lower interest rates and a more accommodative monetary policy.

Greater reductions in the budget deficit, combined with the proper mix of fiscal-monetary policy, could also lead to sustained rapid economic expansion. Under the proper set of conditions, moderate-to-swift economic growth could persist through 1987.

Pessimistic Scenario

A number of factors could cause economic performance to fall below expectations, again particularly after mid-year 1986. Political actions head the list. Failure to cut the budget deficit as much as expected could cause optimism to drop and the economy to fall back into a growth recession. A change in monetary policy, particularly in its mix with fiscal policy, could have the same effect. Other unpredictable political measures, such as tax reform or an energy surcharge, could also produce negative effects.

1986 ARIZONA FORECAST

Arizona's economic outlook is little changed from that of three months ago. While the effects of the national slowdown were felt during 1985, performance generally exceeded expectations, resulting in an unusually wide gap between Arizona and national growth. This differential is likely to narrow to more traditional levels in 1986 due to potentially greater economic improvement nationally than in Arizona. (In some cases, the "slower" 1986 growth in certain indicators shown in Tables 4 and 5 results from the arithmetic of calculating an annual average.)

Personal income and GSP probably will grow at a similar rate in 1986 as in 1985, though the expected revisions to 1985 figures leave doubt as to the exact levels.

Retail sales probably will slow slightly from the rapid advance of 1985, particularly in Maricopa County, but only a modest retrenchment by consumers is expected. The inflation rate also should be lower in 1986, due to both the slowdown in late 1985 and the oil price decline.

The net in-migration of people to Arizona has yet to show any moderation from record levels, despite higher unemployment rates. Thus, the population estimate for mid-year 1986 has been raised. With the Arizona unemployment rate near the national average and with national economic conditions likely to improve, population gains should subside later in 1986.

TABLE 4
1986 ECONOMIC FORECAST: ARIZONA

	Actual	Actual	1986 Forecast Scenarios		
	1984	1985	*Control*	*Optimistic*	*Pessimistic*
Gross State Product					
Millions of 1972 Dollars	20,157	21,400[P]	22,725	23,225	22,375
Percent Change	14.0	6.2	6.2	8.5	4.5
Personal Income					
Millions of Current Dollars	36,151	39,400[P]	43,075	44,125	42,550
Percent Change	13.3	9.0	9.3	12.0	8.0
Retail Sales					
Millions of Current Dollars	16,634	18,113	19,650	20,100	19,375
Percent Change	14.0	8.9	8.5	11.0	7.0
Unemployment Rate					
Percent	5.0	6.5	6.5	6.0	7.0
Wage and Salary Employment					
Number in Thousands	1,181	1,278	1,348	1,380	1,335
Percent Change	9.6	8.2	5.5	8.0	4.5
Population					
Number in Thousands	3,091[E]	3,226[E]	3,360	3,370	3,350
Percent Change	4.2	4.4	4.2	4.5	3.8
New Single Family Housing Units Permitted					
Number	30,845	33,271	32,000	35,500	27,000
Percent Change	-0.3	7.8	-3.8	6.7	-18.8
New Multifamily Housing Units Permitted*					
Number	47,539	37,312	24,000	28,500	11,500
Percent Change	43.0	-22.0	-35.7	-23.6	-69.2
Value of Building Permits					
Millions of Current Dollars	5,262	5,449	4,650	5,700	3,800
Percent Change	44.0	3.5	-14.7	4.6	-30.3

E = Estimated

P = Projected

*Apartment complexes of three or more units

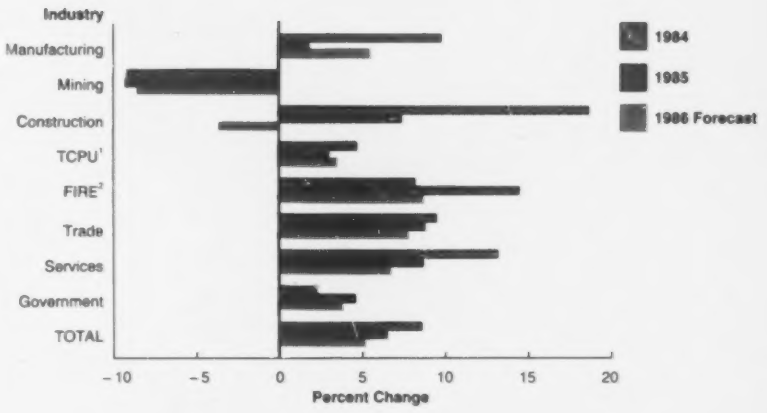
Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

Employment

Employment gains as a proportion of population gains remained high in 1985, but this ratio should lower in 1986 with somewhat slower employment growth. According to the revised data, the unemployment rate peaked in mid-1985. The subsequent decline probably has ended, with stable unemployment rates anticipated through 1986.

As seen in Figure I, 1985 employment gains varied widely by sector, and further disparity is likely in 1986. While growth in most industries slowed during 1985, gains were more rapid in the government and the finance, insurance and real estate (FIRE) sectors. Growth in most sectors should slow further during 1986, but manufacturing should recover from its minuscule advance of 1985. The fastest-growing sectors in 1986 should be FIRE, trade and services.

FIGURE I
ARIZONA EMPLOYMENT GROWTH
Year-end, by Industry



[1] Transportation, Communications and Public Utilities
[2] Finance, Insurance and Real Estate

Source: Bureau of Business and Economic Research, College of Business, Arizona State University. Actual data for 1984-85 from the Arizona Department of Economic Security.

Real Estate

Changes have been made in the real estate forecasts of three months

TABLE 5
1986 ECONOMIC FORECAST: MARICOPA COUNTY

	Actual	Actual	1986 Forecast Scenarios		
	1984	1985	*Control*	*Optimistic*	*Pessimistic*
Consumer Price Index					
Percent Change	5.8	5.0	4.7	3.0	5.2
Retail Sales					
Millions of Current Dollars	8,456	9,549	10,450	10,700	10,225
Percent Change	11.0	12.9	9.4	12.1	7.1
Unemployment Rate					
Percent	3.8	5.1	5.2	4.7	5.6
Wage and Salary Employment					
Number in Thousands	770	840	890	915	880
Percent Change	11.1	9.1	5.9	8.9	4.8
Population					
Number in Thousands	1,726[E]	1,811[E]	1,895	1,900	1,885
Percent Change	4.6	4.9	4.6	4.9	4.1
New Single Family Housing Units Permitted					
Number	20,774	23,143	22,000	24,000	19,000
Percent Change	-0.9	11.4	-4.9	3.7	-17.9
New Multifamily Housing Units Permitted*					
Number	36,817	27,271	17,000	21,000	8,000
Percent Change	53.8	-25.9	-37.7	-23.0	-70.7
Value of Building Permits					
Millions of Current Dollars	3,811	4,013	3,450	4,200	2,800
Percent Change	54.3	5.3	-14.0	4.7	-30.2

E = Estimated
*Apartment complexes of three or more units

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

ago. The outlook for the two most overbuilt sectors, office buildings and apartments, have gone in opposite directions. The office sector is likely to slow further than previously expected as several announced projects may not be started in 1986.

While the number of apartments permitted during 1985 fell more than 25 percent from the record 1984 level, the 27,000 units permitted still greatly exceeded earlier forecasts. Thus, the prediction for 1986 again has been upwardly revised, though a sharp decline still is indicated. A possibility remains that "the bottom" may fall out of this sector at any time.

Alternative Scenarios

In the optimistic scenario, Arizona would join the nation in enjoying a period of rapid economic expansion with relatively low inflation and interest rates. The expansion, however, would not attain the pace experienced during 1983 and early 1984 — such record growth will not be easy to match. The construction boom largely accounted for the extra-fast growth in 1983-84; the construction slowdown that cannot be avoided in 1986 will brake the economy's expansion.

Under the pessimistic assumptions, Arizona's economy would enter a recessionary period in early-to-mid-1987. The recession probably would be short and mild, in contrast to the 1974-75 and 1981-82 downturns. Since growth during 1986 still would be relatively strong — a good first half seems assured — the numbers shown in Tables 4 and 5 are not that different from the control forecast. A deceleration would unfold during the second half of 1986, leading into the 1987 recession.

SUMMARY

The outlook for 1986 is more upbeat than it was three months ago, particularly for the national economy. The chance of a recession in Arizona is less than 5 percent, but the odds increase greatly for 1987. The largest questions again relate to political actions, especially concerning fiscal and monetary policies. Further, conditions largely out of the control of policymakers, such as oil prices, add uncertainty to the forecast.

—Tom R. Rex
Research Manager

Arizona Construction Sets Another Record in '85; Growth Rate Slows

For the third consecutive year, the Arizona construction industry established a record level of activity in 1985. Nearly 108,900 building permits, valued at $5.4 billion, were issued. As in previous years, the apartment, office building, and industrial sectors led the activity. Although a new record was established, the rate of growth (3 percent) appreciably slowed from the 44 percent jump registered in 1984 ($5.3 billion).

Maricopa County continued to dominate Arizona construction activity with $4.0 billion in permitted building (65,422 permits) — 74 percent of the state's total dollar value. The $4.0 billion represented a 5 percent increase over the $43.8 billion recorded in 1984, while the number of permits grew 3 percent, from 63,050 to 65,422. Pima County's dollar value continued to represent 14 percent of the total, although it declined 3 percent from 1984 ($774 million to $747 million). Permit activity remained virtually unchanged at 17,368.

SECTORAL ACTIVITY

Residential

Maricopa County. Mortgage interest rates dropped significantly during 1985. For example, the interest rate on a 30-year conventional mortgage fell from 13 percent to 10.7 percent. Declining interest rates did not have an appreciable impact on the housing market, however. Single family permit activity increased only 11 percent, from 20,774 to 23,143 permits. In fact, the fourth quarter, with 4,260 permits, recorded one of the lowest levels of quarterly activity in several years. Although below expectations, construction activity in 1985 was at the highest level since the record year of 1978, with 30,479 permitted homes.

Several factors may explain this lower-than-expected level of activity. The first is that the single family market has experienced three consecutive years of solid activity, sustained by home builders using innovative financing programs that offered interest rates comparable to current rates. Hence, much of the expected pent-up demand was alleviated. Another reason is that consumers have taken on a considerable debt load over the last few years and may need fairly low rates to enable them to buy a new home. While interest rates were declining, qualifying standards for loans were being tightened to fight the high level of defaults. This step reduced the number of people who could qualify for a new mortgage. Finally, the housing market of the 1980s cannot be equated to that of the 1970s, when low interest rates and rapid housing appreciation greatly stimulated sales.

New home (single family, detached) sales activity in 1985 rose from 10,037 to 10,174 homes, while the median sales price increased from $76,950 to $83,200. Some of the price increase can be attributed to a stronger move-up market. In 1984, 43 percent of new homes sold for more than $80,000, compared to 56 percent during 1985. In the new townhouse/condominium market, sales activity decreased from 3,265 units (median sales price of $62,600) to 2,737 units (median sales price of $65,050). This market was adversely affected by the emergence of the move-up market and by lower interest rates, which enabled first-time buyers to purchase a detached, single family home, typically the preferred housing style.

Households also took advantage of lower interest rates to finance remodeling projects rather than the purchase of a new home. Remodeling activity continued to grow during

1985, from $51 million to $56 million, although the number of permits declined slightly from 6,739 to 6,649.

Rest of Arizona. Unlike Maricopa County, Pima County achieved only a 1 percent increase from 1984 to 1985 in single family permit activity (4,110 to 4,160 permits). More than 73 percent of these permits (3,066) were issued in the unincorporated area of Pima County, while only 24 percent (994 permits) were in the city of Tucson. Although the mobile home sector declined 5 percent, from 2,227 permits in 1984 to 2,107 permits in 1985, this sector still represented 18 percent of the authorized housing units in Pima County (12,028). This compares to only 4 percent (2,318) in Maricopa County.

The single family sector in Arizona's other 13 counties remained virtually unchanged (5,968 permits). The mobile home market continued to be an important element of the housing market, increasing from 5,125 permits in 1984 to 6,350 permits in 1985. Permit activity in this sector exceeded that in the single family sector and represented 58 percent of all mobile home permits issued statewide. A mobile home permit does not necessarily indicate the addition of a new housing unit; it may simply record the movement of a unit.

Commercial

Maricopa County. Although the commercial sector posted a 10 percent decrease in dollar value of issued permits ($1.7 billion to $1.5 billion) and a 19 percent drop in number (4,532 to 3,627), the decline basically occurred in the multifamily sector. This sector moved from a recorded value of $930 million (1,978 permits) in 1984 to $687 million (1,513 permits) in 1985. The multifamily sector consists primarily of apartment projects of five or more units and condominium projects that tend to enter the rental market.

Even though this sector posted a 24 percent decline, from 34,284 to 26,014 authorized units, 1985 was the third consecutive year in which multifamily activity exceeded activity in the single family sector. During the last three years, 81,698 multi-family units have been authorized, and the market is beginning to have some difficulty absorbing this number of units. Unlike 1984, the metropolitan vacancy rate increased in 1985, from an annual average of 8 percent to 10 percent.

The office building sector established another record year, growing from 382 permits, worth $350 million, to 454 permits, valued at $385 million. Due to increasing concern about the ability of the market to absorb all of the new space, permit activity in fourth quarter 1985 (108 permits at $49 million), was at its lowest level in several years.

The retail market continued to grow during 1985, with a record dollar value of $257 million (985 permits), in contrast to 795 permits valued at $168 million in 1984. Most of the activity was in developing strip, neighborhood and community shopping centers, not large regional centers.

Although the number of hotel/motel permits declined from 53 permits to 39 permits, the dollar value of new projects increased from $58 million to $61 million.

Rest of Arizona. Pima County experienced a 10 percent drop in the value of commercial projects, from $344 million to $308 million. As in Maricopa County, the multifamily sector was the primary source of declining activity. This sector recorded a 37 percent decrease in authorized units, from 8,619 ($186 million) to 5,405 ($139 million). Even with the significantly lower level of activity, the number of multifamily permits again exceeded single family permits (4,160).

Table 1 shows new office building projects worth $104 million ($76 million was recorded in 1984), with $90 million of that total in the city of Tucson. The retail sector rebounded in 1985 ($22 million) from lower activity in 1984 ($13 million) but remained well below the record level of $33 million posted in 1983. The hotel/motel sector fell from 14 permits worth $57 million to 3 permits valued at $24 million.

Unlike multifamily activity in the metropolitan counties, this sectoral

TABLE 1
KEY SECTOR CONSTRUCTION ACTIVITY
1984 and 1985

	SINGLE FAMILY		COMMERCIAL						INDUSTRIAL	
			APARTMENTS[a]		OFFICE BUILDINGS[b]		RETAIL STORES[c]			
Maricopa County	Number of Permits	Dollar Value	Number of Permits	Dollar Value	Number of Permits	Dollar Value	Number of Permits	Dollar Value	Number of Permits	Dollar Value
1985	23,143	1,572,602,985	1,513	687,325,334	454	384,594,988	985	257,268,922	602	308,128,441
1984	20,774	1,374,586,500	1,978	929,512,939	382	350,980,149	795	168,105,266	661	223,545,470
Pima County										
1985	4,160	252,427,194	204	139,417,258	121	104,180,842	80	22,369,581	78	39,298,897
1984	4,110	238,515,882	336	185,768,823	120	76,733,411	79	12,519,189	84	28,586,665
Rest of Arizona										
1985	5,966	282,466,084	209	81,277,421	155	16,247,097	315	29,716,524	128	32,463,710
1984	5,961	263,983,225	113	74,345,784	157	14,797,676	340	53,533,585	122	22,700,411
Arizona Total										
1985	33,271	2,107,525,113	1,926	908,020,013	730	505,002,867	1,380	309,355,027	808	379,889,848
1984	30,845	1,377,085,417	2,427	1,189,627,546	659	442,511,263	1,214	234,158,020	867	274,831,546

[a]Five or more housing units.

[b]Office, bank, medical, and professional buildings.

[c]Shopping centers and other mercantile buildings.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

activity in Arizona's other counties increased from 1,500 authorized units ($74 million) to 3,998 units ($81 million). The office building sector remained virtually unchanged at 155 permits valued at $16 million, compared to 157 permits worth $15 million in 1984.

The retail sector registered a strong decrease from $54 million (340 permits) to $30 million (315 permits) in 1985. The hotel/motel sector recorded 27 permits valued at $28 million.

Industrial

Maricopa County. The industrial sector continued the rapid pace of expansion that started in 1983. Although the number of permits declined from 661 to 602, the dollar value grew 37 percent, from $223 million to $308 million. While this level of activity appears to be very strong, the market was dominated by a few large-scale, single-user projects such as those developed by Motorola and McDonnell Douglas Helicopter Corporation. In fact, only five permits accounted for more than $80 million worth of recorded activity.

Rest of Arizona. Industrial development in Pima County continued to improve in 1985, with new projects valued at $39 million, in contrast to a value of $29 million in 1984. Most of the industrial projects were permitted in the unincorporated areas of the county (57 permits worth $33 million), while the city of Tucson had 17 permits valued at $7 million.

Following the same pattern as the metropolitan counties, the dollar value of industrial projects in other Arizona counties grew appreciably, from $23 million to $32 million; the number of permits increased slightly, from 122 in 1984 to 128 in 1985. Casa Grande continued to be the primary location of industrial development outside the metropolitan counties, with 6 permits valued at $17 million.

Other

The final category of construction activity includes permits for both public and private projects. Private sector building projects are as diverse as swimming pools, fences, and churches, while public projects include schools and municipal facilities.

In Maricopa County, the total number of permits remained virtually unchanged at 27,751, while the recorded dollar value jumped 18 percent, from $459 million to $545 million. The greatest increase was for educational facilities: from 51 permits worth $29 million in 1984 to 140 permits valued at $80 million in 1985.

Unlike Maricopa County, Pima County reported declining activity, with a 2 percent decrease in permits (6,843 to 6,687) and a 13 percent decline in dollar value ($133 million to $115 million).

For the non-metropolitan counties, this sector remained very stable in 1985, with projects valued at $89 million, in contrast to $93 million for 1984. As in Maricopa County, educational facilities were a primary building type within this sector.

LOOKING AHEAD

Over the last few years, the Arizona construction industry has exceeded even the most optimistic expectations. A strong level of activity has been evident in all sectors and throughout the state. Growth has been stimulated by an expanding economy and record population increases.

While the Arizona economy is expected to register moderate growth for 1986, construction activity should post a 14.7 percent decline to $4.65 billion. In Maricopa County, total construction activity probably will decrease from $4.0 billion to approximately $3.45 billion. The fundamental reason for the projected decline is the rapid expansion of the last few years. The activity has been driven by record-level construction of apartment and office building projects. Concern has been mounting and evidence seems to confirm that these sectors are overbuilt. Hence, it will take several years to absorb the new space and establish a market that will induce new construction. While other sectors of the industry are not expected to decline, their respective levels of activity are not great enough to overcome the declining office building and apartment sectors.

New retail construction is expected to grow during 1986, supplying space in the new housing areas. As in 1985, the emphasis will be on developing strip, neighborhood and community shopping centers.

Given a growing economy and fairly low vacancy rates, the industrial sector should register a very good year during 1986. The total dollar value of permits, however, could be well below that of 1985 because the large-scale projects that were developed during 1985 are not expected to be a major force in 1986.

The apartment sector could continue to grow in the non-metropolitan counties. Historically, development activity there has accelerated as it declined in the metropolitan counties and developers searched for new areas of opportunity. Further, evidence exists that certain non-metropolitan areas have a definite need for new housing.

Mortgage interest rates have continued to decline in the early part of 1986, with some interest rates below 10 percent. While it is still too early to determine how the market will respond to the lower rates, preliminary evidence indicates the level of response will be stronger than in 1985. Further, lower interest rates coupled with low rates of appreciation have led to much-improved housing affordability. Basically, it appears that the single family market will be good, with construction levels in 1986 comparable to those of 1985.

Construction activity is very closely related to the strength and direction of the economy, and expectations are that the economy will grow at a moderate pace in 1986. Given this expectation and the record levels of recent construction activity, no single sector should dominate; combined, they should produce a good, though not a record, level of activity. Due to the slower economy, construction activity should begin 1986 at a strong pace, slow as the year continues, and finish at a lower level.

—Jay Q. Butler

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TABLE 2
ARIZONA HOUSING UNITS AUTHORIZED: ANNUAL REPORT
January - December 1985

	One Family	Mobile Homes	Duplex	3-4 Family	5 or More	Total
APACHE COUNTY						
Eagar	40	18	0	0	0	58
St. Johns	3	18	0	0	0	21
Springerville	12	3	0	0	20	35
Unincorporated	53	0	0	0	0	53
Total, Apache County	108	39	0	0	20	167
Percent Change, Previous Year	-20	0	0	—	-54	-24
COCHISE COUNTY						
Benson	4	19	0	0	0	23
Bisbee	13	0	0	0	0	13
Douglas	3	0	0	4	0	7
Huachuca City	0	1	0	0	32	33
Sierra Vista	123	46	0	0	1,010	1,179
Tombstone	3	8	0	4	0	15
Unincorporated	196	223	0	4	5	428
Willcox	2	2	0	0	0	4
Total, Cochise County	344	299	0	12	1,047	1,702
Percent Change, Previous Year	-21	-16	—	300	469	72
COCONINO COUNTY						
Flagstaff	367	88	46	9	516	1,026
Fredonia	0	28	0	0	0	28
Page	23	55	0	0	0	78
Unincorporated	323	269	0	0	0	592
Williams	5	2	0	0	0	7
Total, Coconino County	718	442	46	9	516	1,731
Percent Change, Previous Year	-12	2	-43	-78	189	11
GILA COUNTY						
Globe	5	0	0	0	0	5
Hayden	0	0	0	0	0	0
Miami	0	0	0	0	0	0
Payson	101	92	0	12	40	245
Unincorporated	198	100	4	0	0	302
Total, Gila County	304	192	4	12	40	552
Percent Change, Previous Year	-11	-18	100	-33	-43	-17
GRAHAM COUNTY						
Pima	2	16	0	0	0	18
Safford	28	0	0	4	0	32
Thatcher	18	24	0	0	0	42
Unincorporated	25	127	0	0	0	152
Total, Graham County	73	167	0	4	0	244
Percent Change, Previous Year	2	3	0	-50	0	1
GREENLEE COUNTY						
Clifton	0	0	0	0	0	0
Duncan	0	2	0	0	0	2
Unincorporated	2	0	0	0	0	2
Total, Greenlee County	2	2	0	0	0	4
Percent Change, Previous Year	-33	-33	0	0	0	-33
LA PAZ COUNTY						
Parker	4	9	0	0	0	13
Unincorporated	16	124	0	0	0	140
Total, La Paz County	20	133	0	0	0	153
Percent Change, Previous Year	53	-26	—	—	—	-23
MARICOPA COUNTY						
Avondale	8	115	4	7	226	360
Buckeye	6	52	0	0	0	58
Chandler	2,565	0	0	3	2,429	4,997
El Mirage	6	24	0	0	0	30
Gila Bend	2	0	0	0	0	2
Gilbert	489	0	158	28	764	1,439
Glendale	1,641	374	10	0	1,676	3,701
Goodyear	0	29	0	0	0	29
Guadalupe	8	0	0	0	0	8
Mesa	3,004	0	98	270	5,028	8,400
Paradise Valley	91	0	0	0	0	91
Peoria	1,801	319	90	0	348	2,558
Phoenix	6,738	99	326	621	10,955	18,739
Scottsdale	2,212	2	6	182	1,529	3,931
Surprise	3	24	0	0	0	27
Tempe	967	0	12	111	2,060	3,150
Tolleson	5	0	0	0	0	5
Unincorporated	3,562	1,278	0	31	948	5,819
Wickenburg	25	2	20	4	46	97
Youngtown	10	0	0	0	5	15
Total, Maricopa County	23,143	2,318	724	1,257	26,014	53,456
Percent Change, Previous Year	11	32	25	-50	-24	-10
MOHAVE COUNTY						
Kingman City	197	6	2	0	5	210
Kingman Area	48	222	0	0	5	275
Lake Havasu City	363	19	2	26	119	529
Lake Havasu Area	6	37	0	0	0	43
Bullhead City	310	320	0	88	47	765
Mohave Valley South	71	279	0	0	10	360
Dolan Springs	14	57	0	0	0	71
Sacramento Valley	27	120	0	0	0	147
Mohave General	34	827	0	0	0	861
Total, Mohave County	1,070	1,887	4	114	186	3,261
Percent Change, Previous Year	-18	42	-95	23	-63	-1
NAVAJO COUNTY						
Holbrook	3	0	0	0	0	3
Pinetop-Lakeside	59	17	0	0	24	100
Show Low	201	62	2	0	0	265
Snowflake	11	2	0	0	0	13
Taylor	4	111	0	0	0	115
Unincorporated	351	135	0	0	0	486
Winslow	11	31	0	0	0	42
Total, Navajo County	640	358	2	0	24	1,024
Percent Change, Previous Year	11	297	-79	—	—	50
PIMA COUNTY						
Marana	2	40	0	0	0	42
Oro Valley	90	0	6	0	0	96
South Tucson	8	0	0	0	0	8
Tucson	994	509	232	102	3,824	5,661
Unincorporated	3,066	1,558	0	16	1,581	6,221
Total, Pima County	4,160	2,107	238	118	5,405	12,028
Percent Change, Previous Year	1	-5	-4	-31	-37	-21
PINAL COUNTY						
Apache Junction	111	361	2	12	128	614
Casa Grande	59	0	24	31	794	908
Coolidge	2	22	2	0	0	26
Eloy	2	12	4	0	0	18
Florence	3	36	0	0	0	39
Kearny	0	3	0	0	0	3
Mammoth	0	2	0	0	0	2
Superior	1	0	0	0	0	1
Unincorporated	323	456	40	27	17	863
Total, Pinal County	501	892	72	70	939	2,474
Percent Change, Previous Year	50	3	24	-38	353	56
SANTA CRUZ COUNTY						
Nogales	N/R	N/R	N/R	N/R	N/R	N/R
Patagonia	0	10	0	4	0	14
Unincorporated	96	152	2	9	5	264
Total, Santa Cruz County	96	162	2	13	5	278
Percent Change, Previous Year	1	1,700	—	—	—	167
YAVAPAI COUNTY						
Chino Valley	15	119	0	0	0	134
Clarkdale	46	25	4	43	1	119
Cottonwood	36	12	10	23	70	151
Jerome	3	0	0	0	0	3
Prescott	278	30	14	30	64	416
Prescott Valley	184	71	20	22	0	297
Unincorporated	1,027	846	20	61	90	2,044
Total, Yavapai County	1,589	1,103	68	179	225	3,164
Percent Change, Previous Year	16	72	-2	43	2	30
YUMA COUNTY						
Somerton	46	7	0	0	0	53
Unincorporated	201	591	2	8	6	808
Wellton	1	1	0	0	0	2
Yuma	255	75	4	99	990	1,423
Total, Yuma County	503	674	6	107	996	2,286
Percent Change, Previous Year	9	-14	-62	386	1,114	67
TOTAL, ARIZONA	33,271	10,775	1,166	1,895	35,417	82,524
PERCENT CHANGE, PREVIOUS YEAR	7	18	1	-39	-20	-6

N/R: No Report

Note: A dash indicates that a percent change could not be calculated because at least one period had no activity.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

TABLE 3
ARIZONA BUILDING PERMITS: ANNUAL REPORT
January - December 1985

	Residential*		Commercial		Industrial		Other		Total	
	Number of Permits	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*
APACHE COUNTY										
Eagar	74	2,686,622	4	509,331	0	0	6	11,500	84	3,207,453
St. Johns	22	N/C	2	N/C	0	0	0	0	24	N/C
Springerville	25	250,000	8	121,000	0	0	10	15,000	43	386,000
Unincorporated	72	2,470,210	3	18,250	0	0	4	19,129	79	2,507,589
Total, Apache County	193	5,406,832	17	648,581	0	0	20	45,629	230	6,101,042
Percent Change, Previous Year	-11	37	68	-50	0	0	-31	-79	-9	11
COCHISE COUNTY										
Benson	40	550,350	2	4,000	0	0	33	79,409	75	633,759
Bisbee	59	611,100	1	150,000	0	0	13	748,200	73	1,509,300
Douglas	127	934,609	3	554,107	2	1,134,054	117	2,631,986	249	5,254,756
Huachuca City	52	143,889	3	677,108	1	142,400	9	249,706	65	1,213,103
Sierra Vista	236	5,870,268	31	21,603,259	0	0	797	6,550,733	1,064	34,024,280
Tombstone	31	144,550	3	136,500	0	0	67	550,855	101	831,905
Unincorporated	513	14,638,505	20	9,787,500	4	791,000	102	2,909,878	639	28,126,883
Willcox	33	159,542	5	785,300	3	82,748	71	381,601	112	1,409,191
Total, Cochise County	1,091	23,052,833	68	33,697,774	10	2,150,202	1,209	14,102,368	2,378	73,003,177
Percent Change, Previous Year	-10	-15	-30	12	25	182	-9	28	-10	5
COCONINO COUNTY										
Flagstaff	676	27,981,565	67	11,898,809	9	984,045	240	12,164,294	992	53,028,713
Fredonia	31	15,200	2	24,250	1	5,000	5	6,350	39	50,800
Page	111	1,848,990	6	1,298,217	1	38,000	18	705,054	136	3,890,261
Unincorporated	990	19,763,592	9	3,523,041	2	123,855	183	2,688,773	1,184	26,099,261
Williams	15	374,881	4	182,000	0	0	21	36,450	40	593,331
Total, Coconino County	1,823	49,984,228	88	16,926,317	13	1,150,900	467	15,600,921	2,391	83,662,366
Percent Change, Previous Year	2	-10	-18	-71	-40	-68	0	217	0	-32
GILA COUNTY										
Globe	29	242,302	0	0	0	0	29	24,550	58	266,852
Hayden	2	1,700	0	0	0	0	6	4,500	8	6,200
Miami	12	37,295	2	55,500	0	0	3	10,050	17	112,845
Payson	390	5,536,063	13	1,877,871	13	502,050	65	2,620,542	481	10,538,526
Unincorporated	465	12,192,647	18	1,214,000	0	0	61	982,527	544	14,389,174
Total, Gila County	898	18,012,007	33	3,157,371	13	502,050	164	3,642,169	1,108	25,313,597
Percent Change, Previous Year	-5	17	17	19	-38	-33	1	-41	-4	1
GRAHAM COUNTY										
Pima	41	449,550	1	8,000	0	0	23	67,250	65	524,800
Safford	97	1,293,253	26	347,800	2	29,700	26	2,782,105	151	4,452,858
Thatcher	54	1,444,700	1	15,000	0	0	39	104,200	94	1,563,900
Unincorporated	246	2,759,996	8	125,685	2	101,000	2	3,500	258	2,990,181
Total, Graham County	438	5,947,499	36	496,485	4	130,700	90	2,957,055	568	9,531,739
Percent Change, Previous Year	4	6	-16	-42	-19	-69	45	218	7	22
GREENLEE COUNTY										
Clifton	2	N/C	0	0	0	0	1	100	3	100
Duncan	6	55,900	0	0	0	0	0	0	6	55,900
Unincorporated	3	34,600	0	0	0	0	1	8,100	4	42,700
Total, Greenlee County	11	90,500	0	0	0	0	2	8,200	13	98,700
Percent Change, Previous Year	-8	-23	0	0	0	0	-66	-45	-27	-25
LA PAZ COUNTY										
Parker	43	320,923	10	497,130	1	29,000	62	333,937	116	1,180,990
Unincorporated	201	3,409,805	12	665,880	1	32,320	201	1,339,115	415	5,447,120
Total, La Paz County	244	3,730,728	22	1,163,010	2	61,320	263	1,673,052	531	6,628,110
Percent Change, Previous Year	-26	-12	57	9	-66	-75	115	64	12	0
MARICOPA COUNTY										
Avondale	147	453,475	27	6,765,760	1	11,500	128	3,329,859	303	10,560,594
Buckeye	70	324,100	1	35,000	0	0	16	1,123,500	87	1,482,600
Chandler	2,926	155,161,860	232	96,568,169	25	40,948,062	3,983	44,460,978	7,166	337,139,069
El Mirage	62	830,860	7	2,063,225	0	0	26	583,106	95	3,477,191
Gila Bend	11	111,900	1	23,000	0	0	28	469,905	40	604,805
Gilbert	641	37,760,036	84	25,560,942	12	6,382,037	194	22,525,254	931	92,228,269
Glendale	2,353	106,029,769	182	67,127,688	33	15,278,780	1,373	26,957,332	3,941	215,393,569
Goodyear	53	139,825	2	1,140,000	2	552,320	126	841,816	183	2,673,961
Guadalupe	20	147,248	1	78,189	0	0	3	2,758	24	228,195
Mesa	3,462	209,004,296	385	292,204,102	44	103,261,648	3,331	83,137,940	7,222	687,607,986
Paradise Valley	310	24,238,821	5	2,607,957	0	0	342	8,123,168	657	34,969,946
Peoria	2,540	58,562,622	30	11,168,275	0	0	2,149	6,617,815	4,719	76,348,712
Phoenix	9,837	467,419,960	1,445	616,508,132	162	54,760,709	7,422	204,923,913	18,866	1,343,612,714
Scottsdale	2,529	308,933,479	409	179,954,754	37	18,565,586	2,033	74,344,825	5,008	581,798,644
Surprise	36	485,941	4	3,848,096	0	0	26	283,114	66	4,617,151
Tempe	1,401	68,581,600	366	130,797,060	288	66,684,799	1,169	38,263,600	3,224	324,327,059
Tolleson	14	209,900	2	50,000	1	350,000	3	15,500	20	625,400
Unincorporated	6,970	204,334,434	437	57,300,228	1	1,331,000	5,380	26,346,018	12,788	289,311,680
Wickenburg	40	1,354,325	6	1,494,600	0	0	8	156,480	54	3,005,405
Youngtown	16	354,618	1	133,000	0	0	11	2,609,744	28	3,097,362
Total, Maricopa County	33,438	1,664,439,069	3,627	1,495,428,177	606	308,126,441	27,751	545,116,625	65,422	4,013,110,312
Percent Change, Previous Year	9	14	-19	-10	-8	37	1	18	3	5

Arizona Building Permits: Annual Report (continued)

	Residential*		Commercial		Industrial		Other		Total	
	Number of Permits	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*	*Number of Permits*	*Dollar Value*
MOHAVE COUNTY										
Kingman City	280	6,180,542	17	1,468,675	1	72,000	34	481,060	332	8,202,277
Kingman Area	469	5,781,276	52	750,148	3	1,091,400	339	964,744	863	8,587,568
Lake Havasu City	459	14,964,794	59	10,117,753	1	108,975	195	1,541,547	724	26,733,069
Lake Havasu Area	70	898,533	6	181,693	0	0	70	293,176	146	1,373,402
Bullhead City	958	17,013,906	103	9,419,093	4	194,255	657	2,556,190	1,722	29,183,444
Mohave Valley South	596	9,400,126	42	1,028,157	3	519,000	447	1,780,013	1,088	12,727,296
Dolan Springs	124	1,650,224	15	442,354	0	0	62	304,901	201	2,397,479
Sacramento Valley	226	3,171,119	32	488,870	0	0	125	309,891	385	3,969,880
Mohave General	891	2,345,243	5	28,304	0	0	29	216,469	925	2,590,016
Total, Mohave County	4,085	61,405,763	331	23,925,047	12	1,985,630	1,958	8,447,991	6,386	95,764,431
Percent Change, Previous Year	0	-18	-9	-45	33	20	-17	-26	-6	-27
NAVAJO COUNTY										
Holbrook	13	148,920	2	253,000	0	0	9	76,642	24	478,562
Pinetop-Lakeside	110	2,396,384	16	953,385	2	52,045	112	1,086,335	240	4,488,149
Show Low	316	6,795,071	4	202,685	2	112,106	88	432,328	410	7,542,190
Snowflake	16	N/C	1	N/C	0	0	1	N/C	18	N/C
Taylor	128	161,500	0	0	0	0	4	1,800	132	163,300
Unincorporated	758	14,614,313	18	1,062,993	0	0	48	1,724,096	824	17,401,402
Winslow	70	746,229	4	1,696,530	0	0	15	165,200	89	2,607,959
Total, Navajo County	1,411	24,862,417	45	4,168,593	4	164,151	277	3,486,401	1,737	32,681,562
Percent Change, Previous Year	24	0	50	10	33	75	77	53	31	6
PIMA COUNTY										
Marana	45	N/C	0	0	1	N/C	12	N/C	58	N/C
Oro Valley	109	4,674,348	3	2,179,009	0	0	56	439,108	168	7,292,465
South Tucson	16	258,670	3	127,544	1	71,179	18	155,359	38	612,752
Tucson	3,798	75,908,114	251	213,475,384	17	6,569,618	3,886	76,678,206	7,952	372,631,322
Unincorporated	6,142	203,863,600	238	92,266,100	57	32,658,900	2,715	38,045,100	9,152	366,833,700
Total, Pima County	10,110	284,704,732	495	308,048,037	76	39,299,697	6,687	115,317,773	17,368	747,370,239
Percent Change, Previous Year	2	5	-27	-10	-9	37	-2	-13	0	-3
PINAL COUNTY										
Apache Junction	559	13,835,866	38	3,885,168	1	28,874	469	1,636,038	1,067	19,385,946
Casa Grande	116	6,025,291	63	21,589,192	6	16,771,454	109	3,507,108	294	47,893,045
Coolidge	48	569,450	0	0	1	9,500	12	45,910	61	624,860
Eloy	31	155,200	5	1,445,646	0	0	29	3,202,080	65	4,802,926
Florence	65	490,550	3	15,500	0	0	11	13,645	79	519,695
Kearny	11	12,300	0	0	0	0	6	9,100	17	21,400
Mammoth	2	N/C	0	0	0	0	4	N/C	6	N/C
Superior	8	29,800	1	700	0	0	18	21,695	27	52,195
Unincorporated	996	13,725,885	30	4,846,550	8	486,000	660	2,461,263	1,694	21,519,698
Total, Pinal County	1,836	34,844,342	140	31,782,756	16	17,295,828	1,318	10,896,839	3,310	94,819,765
Percent Change, Previous Year	17	65	20	147	77	45	27	-22	21	58
SANTA CRUZ COUNTY										
Nogales	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Patagonia	17	183,496	2	144,140	0	0	21	72,628	40	400,264
Unincorporated	257	5,279,551	4	330,000	1	706,000	17	403,735	279	6,719,286
Total, Santa Cruz County	274	5,463,047	6	474,140	1	706,000	38	476,363	319	7,119,550
Percent Change, Previous Year	115	1	—	—	0	101	-4	-86	89	-24
YAVAPAI COUNTY										
Chino Valley	189	1,431,891	10	301,164	0	0	38	562,692	237	2,295,747
Clarkdale	93	3,170,898	19	1,613,808	0	0	34	268,552	146	5,053,258
Cottonwood	107	2,407,367	24	3,002,078	8	1,419,281	53	2,793,322	192	9,622,048
Jerome	13	69,600	1	45,000	0	0	7	7,700	21	122,300
Prescott	522	17,636,884	33	6,380,277	6	624,414	456	8,067,343	1,017	32,708,918
Prescott Valley	331	8,485,272	20	965,240	1	42,000	56	398,714	408	9,891,226
Unincorporated	2,244	70,495,126	77	18,783,560	3	435,500	372	4,023,173	2,696	93,737,359
Total, Yavapai County	3,499	103,697,038	184	31,091,127	18	2,521,195	1,016	16,121,496	4,717	153,430,856
Percent Change, Previous Year	22	18	1	32	0	179	-21	14	8	22
YUMA COUNTY										
Somerton	77	2,218,239	5	113,164	1	85,000	17	95,110	100	2,511,513
Unincorporated	994	24,539,950	55	4,731,965	18	2,940,719	286	3,118,913	1,353	35,331,547
Wellton	4	59,500	1	N/C	0	0	1	500	6	60,300
Yuma	522	17,420,597	145	34,007,243	12	2,770,015	281	8,456,879	960	62,654,734
Total, Yuma County	1,597	44,238,286	206	38,852,372	31	5,795,734	585	11,671,702	2,419	100,558,094
Percent Change, Previous Year	0	4	157	187	54	201	17	-49	9	24
TOTAL, ARIZONA	50,948	2,329,879,321	5,298	1,989,859,787	806	379,889,848	41,845	749,564,584	108,897	5,449,193,540
PERCENT CHANGE, PREVIOUS YEAR	7	11	-15	-9	-7	38	0	9	3	3

*Includes mobile homes.

N/R: No Report

N/C: Some communities do not collect dollar valuations

Note: A dash indicates that a percent change could not be calculated because at least one period had no activity.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

"Real Estate," from page 1

1985 and January 1986 by *Metro Phoenix* magazine and the Arizona Real Estate Institute in the ASU College of Business.

ECONOMIC OUTLOOK

Respondents expect economic conditions during 1986 to be comparable to those achieved in 1985. This year's outlook is similar to that for 1985, as shown in Table 1, though the expectation of stability is more prevalent than in any prior survey. Generally, slightly better conditions are foreseen for the Phoenix economy in 1986 (63 percent of respondents), but slightly worse performance is anticipated nationally — only 47 percent are confident that the federal government's economic policy will lead to an improving economy.

Projections of specific indicators are illustrated in Table 2. Respondents expect stability in the Phoenix inflation rate; only 30 percent are confident that inflation will decline in 1986. They also believe that the Phoenix area unemployment rate will creep up from still-low levels. Their outlook on interest rates is mixed, but not much change in either direction is foreseen during 1986.

REAL ESTATE OUTLOOK

In keeping with the stable forecast for the general economy, the outlook for the local real estate market in 1986 is similar to that in 1985. While 58 percent of the respondents are confident that the real estate market in general will improve during 1986, confidence levels are lower for the new home market (51 percent). A fundamental concern is that only 42 percent of respondents express confidence in mortgage interest rates declining by the end of 1986. However, as seen in Table 2, the rates are not expected to rise much higher than they were at the end of 1985 when the survey was conducted.

Respondents expect other measures of real estate activity to be similar in 1986 to 1985. They foresee home prices continuing to rise relatively slowly — in fact, even more slowly — in 1986. Sales of existing homes should be unchanged, as should the number of new single family home starts. The respondents' expectations of 20,000 to 25,000 starts approximates the 23,000 homes permitted during 1985, though the survey of one year ago revealed greater optimism (25,000 to 30,000 starts). The outlook is also stable for the rental market, with rental increases expected to remain moderate and vacancy rates to be near the current high levels.

Respondents reserve the most optimism for the performance of their own firm: 77 percent are confident that their business activity will improve during 1986, and they anticipate a median increase of 10 percent.

SUMMARY

Although the 1986 survey respondents are not as optimistic as those who responded to the 1985 survey, they foresee a year comparable to 1985. Given that, in most areas of real estate, 1985 ended with results exceeding most expectations, an outlook of stability for 1986 is tantamount to a prediction of another good year for the real estate industry.

—Jay Q. Butler

Dr. Butler is Associate Professor of Real Estate in the College of Business, Arizona State University. He also serves as Director of the Arizona Real Estate Institute.

TABLE 1
REAL ESTATE INDUSTRY SURVEY
ECONOMIC OUTLOOK SCORES*

Economic Variable	*1986*	*1985*
Consumer confidence	57	55
Phoenix area economy	65	59
Retail sales	58	54
National economy	49	45
Phoenix employment	58	56
National employment	46	43
Business confidence	54	53

* Metropolitan Phoenix real estate industry representatives had three reply options to each survey question: Higher, Same or Lower. The score for each question was calculated by averaging the weighted replies. The weights: Higher - 100; Same - 50; Lower - 0. Scores may range from 0 to 100, with higher scores reflecting a greater degree of optimism. Scores near 50 indicate an expectation of no change; scores above 50 indicate expected improvement, and scores below 50 indicate expected worsening.

Source: Survey conducted by the Arizona Real Estate Institute in the College of Business, Arizona State University; in cosponsorship with *Metro Phoenix* magazine, December 1985 and January 1986.

TABLE 2
REAL ESTATE INDUSTRY SURVEY
1986 CONSENSUS OUTLOOK COMPARED TO ACTUAL 1985
Metropolitan Phoenix

		Percentage Rate	
Variable	*1985 Projection*	*Actual Year-end, 1985*	*1986 Projection*
Conventional mortgage rate	13.0	10.75	11.5
FHA mortgage rate	12.5	10.5	11.0
Prime interest rate	11.0	9.5	9.0
Commercial interest rate	13.0	N/A	12.0
Six-month Treasury Bill rate	9.6	7.1	8.0
Inflation rate (Metropolitan Phoenix)	5.0	3.8	4.0
Apartment vacancy rate	9.0	10.0	11.0
Unemployment rate (Metropolitan Phoenix)	5.0	5.1	6.0

		Percent Change	
	1985 Projection	*Actual 1985*	*1986 Projection*
Resale home prices	4.9	3.2	2.0
New home prices	5.4	8.1	5.0
Land prices	9.9	N/A	8.0
Level of firm's activity	10.4	N/A	10.0
Resale home market activity	9.6	3.8	0.0
Monthly rent for apartments	5.1	4.0	3.0

N/A = Not Available

Source: Bureau of Business and Economic Research and Arizona Real Estate Institute, College of Business, Arizona State University.

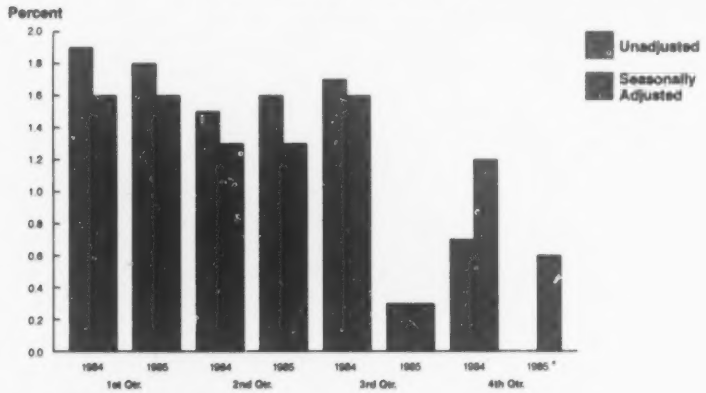
Seasonal Adjustment to CPI Smooths Inflation Rate

An accurate interpretation of shifts in the inflation rate can be hampered by seasonality of price changes. Prices of many items, such as electricity rates, regularly increase or decrease by larger-than-average amounts at certain times of the year. To minimize the effect of such predictable behavior, many economic series, including the Consumer Price Index (CPI), are reported on a seasonally adjusted basis.

Previously, the Metropolitan Phoenix Consumer Price Index was not seasonally adjusted because several years of historical data are required to be confident of seasonal patterns. At least seven years of data are now available for nearly all 298 categories that constitute the Phoenix CPI (with the exception of a few categories that were newly created in the 1983 revision).

Only quarterly percent changes have been seasonally adjusted; the inflation rate measured over a one-year span is unaffected by seasonality. To avoid confusion, index values were not seasonally adjusted. Thus, the only alteration to upcoming quarterly CPI reports will be the presentation of seasonally adjusted, rather than unadjusted, quarterly percent changes.

FIGURE I
METROPOLITAN PHOENIX CONSUMER PRICE INDEX
Quarterly Percent Change



*Unadjusted fourth quarter 1985 value was 0.0.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University, in cosponsorship with Valley National Bank.

TABLE 1
COMPARISON OF SEASONALLY ADJUSTED AND UNADJUSTED PERCENT CHANGES IN THE METROPOLITAN PHOENIX CONSUMER PRICE INDEX

	Percent Change from Preceding Quarter							
Expenditure Category	*1st 1984*	*2nd 1984*	*3rd 1984*	*4th 1984*	*1st 1985*	*2nd 1985*	*3rd 1985*	*4th 1985*
ALL ITEMS	1.9	1.5	1.7	0.7	1.8	1.6	0.3	0.0
Seasonally adjusted	1.6	1.3	1.6	1.2	1.6	1.3	0.3	0.6
Food and Beverages	1.8	0.7	1.0	0.2	2.6	1.1	-0.7	1.6
Seasonally adjusted	0.9	0.6	1.5	0.9	1.6	0.9	-0.1	2.3
Housing	0.6	2.0	2.3	-0.1	1.2	1.4	2.2	-1.4
Seasonally adjusted	0.7	1.2	1.9	0.9	1.2	0.6	1.8	-0.4
Apparel and Upkeep	2.5	-1.3	-0.1	0.4	2.2	3.1	-2.5	2.7
Seasonally adjusted	2.2	-1.4	0.6	0.0	1.8	3.3	-1.9	2.5
Transportation	1.6	2.3	1.2	2.2	1.7	2.8	-2.2	-0.9
Seasonally adjusted	2.0	1.7	1.2	2.6	2.0	2.0	-2.1	-0.6
Medical Care	11.4	1.1	3.0	2.7	3.4	1.3	2.3	1.6
Seasonally adjusted	10.2	2.4	2.3	2.9	2.6	2.7	1.8	1.8
Entertainment	1.1	2.3	2.6	0.3	4.6	0.2	2.4	6.6
Seasonally adjusted	-0.3	5.4	2.3	-0.9	2.9	3.5	2.1	5.3
Other Goods and Services	0.8	1.1	2.1	1.2	1.4	1.7	0.3	0.9
Seasonally adjusted	1.3	1.0	1.7	1.4	1.7	1.7	-0.2	1.2

Source: Bureau of Business and Economic Research, College of Business, Arizona State University, in cosponsorship with Valley National Bank.

SEASONAL PATTERNS

Inflation in the Phoenix area follows a seasonal pattern. Rates in the first two quarters of any year typically are higher than the average quarterly rate for the year; the pace in the fourth quarter usually is slower than average. Seasonal adjustment reduces these variations, as illustrated in Figure I and Table 1. On a seasonally adjusted basis, inflation during 1984 and the first half of 1985 was remarkably stable, ranging between 1.2 and 1.6 percent per quarter. A noticeable slowing occurred during the second half of 1985.

Every subcategory of the CPI has a unique seasonal pattern. Even the major categories shown in Table 1 exhibit seasonal patterns different from each other and from the total index. Price increases for food and beverages usually are largest in the first quarter and smallest in the third and fourth quarters. Housing prices generally rise most rapidly during the second quarter and least rapidly during the fourth quarter. Little seasonality is apparent in transportation costs.

—Tom R. Rex
Research Manager

February Purchasing Indicators Poised for Rapid Advance

The tempo of the economy increased in February, and the growth rate appears poised for a shift into high gear. The first two months of the new year were much stronger than those at the close of 1985. New orders received from customers, a key leading indicator, advanced in February to its highest rate in more than a year (see Table 1). Production followed along, registering its highest monthly jump since February 1985. Price increases continued to moderate, and inventory rebuilding appeared to be underway, triggered by the higher new order and production rates.

The first quarter's economic improvement now is assured. The acceleration seen in January and February likely will continue and intensify. Lower interest rates and the inventory rebuilding needed to support higher output rates will provide further stimulus to economic growth. In addition, the falling value of the dollar eventually will reduce the volume of imports, helping to build manufacturing volume in Arizona firms. The lower inflation rate, aided by falling energy costs, will provide a measure of stability that will extend the expansion even further. The Arizona economy will move to new, higher ground during the first half of 1986.

PRICES

Prices paid for major purchased items increased again in February but at a slower rate than in January, as the Arizona economy continued to enjoy a moderate inflation rate. Fears of a resumption of the high inflation rate of past years are largely unfounded, as only small price increases have been recorded over the past year. It may take time for the lower costs of energy to work through the system, but this should assure a degree of price stability during 1986 that will permit a continuation of the orderly economic expansion.

DELIVERY TIME

Delivery time on shipments from vendors continued to stretch, at the same rate as in January. The lead time increase in each of the past five months has been larger than in any of the first nine months of 1985. As economic activity continues to accelerate, the higher vendor operating rates will result in even longer lead times.

INVENTORIES

Inventory levels of purchased materials went up in February, following January's slight drop. After decreasing in four of the past five months, inventory levels are low relative to the expanding rate of production. This condition appears to be triggering some rebuilding, which will further stimulate the expansion.

NEW ORDERS

New orders booked by Arizona firms rose sharply again in February, the 38th consecutive monthly advance. The net new order growth rate in February was the largest since June 1984 (20 months ago), providing further evidence that the economic growth curve is steadily tilting upward.

PRODUCTION

Production also increased sharply in February, following closely the new order growth curve. This was the 38th consecutive monthly production increase and the largest since February 1985.

EMPLOYMENT

Employment went up again in February, at a rate slightly greater than in the previous month. This was the largest jump since August and the 14th consecutive monthly increase. The higher new order and production rates will result in further additions to the Arizona work force over the next several months.

PURCHASES

Purchases of materials and services by Arizona firms advanced again, at about the same rate as in January. The purchase commitment rate held at its highest level of the past 1½ years and is providing continuing stimulus to the growing economic expansion.

— Harold Fearon

Dr. Fearon is chairman of the Department of Purchasing, Transportation, Operations in the ASU College of Business and is the National Association of Purchasing Management Professor.

Arizona Purchasing Survey

Now in its 24th year of monthly reporting, Dr. Harold Fearon's survey of Arizona business conditions utilizes data from a questionnaire sent to members of the purchasing management associations of Arizona and southern Arizona. It asks them to indicate the direction of activity — higher, unchanged, or lower — of seven key measures of economic activity in the month just ended. These purchasing managers deal daily with supply, demand, and price factors in the marketplace; their aggregate readings have accurately charted the state's economic course for two decades, providing timely data on turning points.

TABLE 1
FEBRUARY PURCHASING SURVEY

	Percent of Purchasing Managers Indicating Each Response (February compared to January)		
Key Indicators	*Higher*	*Same*	*Lower*
Prices paid for major commodities	21	68	11
Delivery time from vendors	26	63	11
Purchased materials inventory level	29	50	21
New orders received	46	35	19
Production	46	38	16
Employment	27	57	16
Purchases	43	40	17

Source: Purchasing Management Association of Arizona and the Purchasing Management Association of Southern Arizona.

Arizona Leading Index Slips in January

The Arizona Index of Leading Economic Indicators fell slightly in January, following a moderate gain in December (see Figure I). January's 0.2 percent decline lowered the index to 106.2 from a revised all-time high of 106.4 in December.

Only three index components rose in January, matching the lowest diffusion index since summer 1984. However, the gain in residential building permits was the second largest since 1982. The increase in average hours worked in the manufacturing industry, though relatively large, did not offset the consecutive declines between October and December.

A sharp rise in first-time unemployment insurance claims (a negative indicator), the second largest since 1982, pulled down the January index. In addition, the net decline in five components derived from a survey of Arizona purchasing managers was larger than in all but one month since 1981. The national money supply (M2) also fell slightly - its third such decline of the last four months (see Table 1).

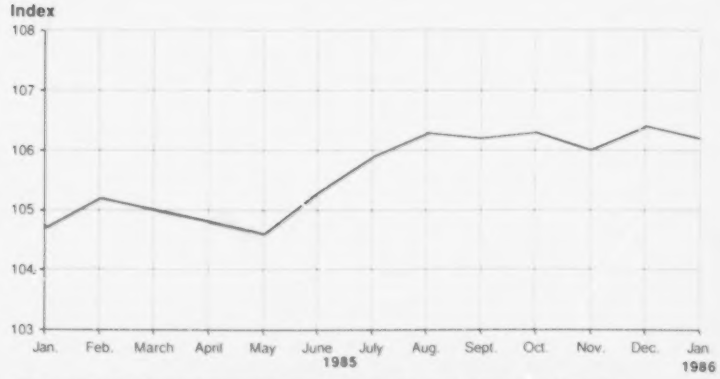
OUTLOOK

The leading index's up-and-down pattern since the beginning of 1984 suggests that moderate but somewhat inconsistent economic growth should persist in Arizona through 1986. Largely due to sharper gains in the index last summer, economic growth should slightly exceed that of 1985.

While the national Index of Leading Economic Indicators slipped in January, the revised December gain was very large. Thus, the net increase of the two months continued the pattern of moderate gains of the preceding several months. More information on the national leading index and on the outlook is included in the forecast article that begins on page 1.

—Tom R. Rex
Research Manager

FIGURE I
ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

TABLE 1
NET CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE ARIZONA INDEX OF LEADING ECONOMIC INDICATORS

	Net Contribution+			
	Oct.	*Nov.*	*Dec.*	*Jan.*
Delivery Time*	.14	−.02	.09	−.08
Inventory Levels*	.01	.03	.00	−.05
New Orders*	−.01	.10	.05	−.07
Production*	−.05	.01	.14	−.06
Employment*	.07	.08	−.01	−.04
Residential Building Permits	−.13	−.25	.10	.31
Unemployment Insurance Claims	.19	−.15	.00	−.23
Average Workweek, Manufacturing	−.07r	−.05r	−.14r	.18
Money Supply	−.07r	−.05r	.09r	−.09
Change in Sensitive Materials Prices	.07r	.01r	.00r	.01
OVERALL INDEX	.15r	−.28r	.32r	−.12

rRevised

+The net contribution of each component is calculated by multiplying the monthly percent change in its index by its relative importance.

*Based on indicators from the purchasing management associations of Arizona and southern Arizona.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

'85 Index Available

An index to the 1985 issues of *Arizona Business* is available on request from the Bureau of Business and Economic Research by calling (602) 965-3961.

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The form also will include a three-question reader survey. By checking the appropriate boxes, you will aid us in planning an upcoming series of reader surveys on current issues of interest to the business/governmental communities.

ARIZONA ECONOMIC INDICATORS

	Month or Quarter	Value	Percent Change from Previous Period	Percent Change from Year Ago	Year-to-Date Value	Year-to-Date Percent Change from Year Ago
GROSS STATE PRODUCT						
(In Billions of Dollars, at Annual Rate)						
Arizona - Current Dollars	3rd Qtr.	45.543	6.7	7.9	NA	NA
Arizona - 1972 Dollars	3rd Qtr.	21.507	6.1	4.4	NA	NA
CONSUMER PRICE INDEX (1977 = 100)						
Metropolitan Phoenix	4th Qtr.	191.5	0.0	3.8	NA	NA
INDEX OF LEADING ECONOMIC INDICATORS (1977 = 100)						
Arizona	Jan.	106.2	-0.2	1.4	NA	NA
BUILDING PERMITS						
(Total Dollar Value in Thousands)						
Maricopa County	Dec.	251,493	18	-1	4,013,110	5
Pima County	Dec.	30,517	-30	-52	747,370	-3
Balance of State	Dec.	42,808	8	-4	688,714	2
Arizona	Dec.	324,818	9	-11	5,449,194	3
TOTAL HOUSING UNITS AUTHORIZED						
Maricopa County	Dec.	2,806	-2	-13	53,456	-10
Pima County	Dec.	477	9	-47	12,028	-21
Balance of State	Dec.	1,051	-6	18	17,040	29
Arizona	Dec.	4,334	-2	-13	82,524	-6
HOME SALES						
Maricopa County - Number	Jan.	3,785	-30	19	3,785	19
Maricopa County - Median Price	Jan.	73,000	-5.1	0.3	73,000	0.3
HOUSING AFFORDABILITY INDEXES						
Metropolitan Phoenix - New Homes	4th Qtr.	80	-1.2	5.3	NA	NA
Metropolitan Phoenix - Resale Homes	4th Qtr.	93	3.3	13.4	NA	NA
MORTGAGE INTEREST RATES						
(Conventional, 30-year, Fixed-rate)						
Maricopa County	Jan.	10.8	-1.8	*	NA	NA
Maricopa County	Feb.	10.5	-2.8	*	NA	NA
POPULATION ESTIMATES						
(In Thousands)						
Maricopa County	4th Qtr.	1,856	1.1	4.9	NA	NA
Arizona	4th Qtr.	3,294	1.0	4.1	NA	NA
ELECTRICAL POWER SALES						
(In Millions of Kilowatt Hours)						
Arizona	Jan.	2,690.0	-3.7	-2.2	2,690.0	-2.2

NA = Not Applicable

* = Not Available

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

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BUREAU OF BUSINESS AND ECONOMIC RESEARCH

Valley Inflation Still Zero

For the second successive quarter, no inflation was measured in the Phoenix metropolitan area during first quarter 1986. From first quarter 1985, prices of goods and services rose just 2.0 percent to an index value of 191.6 (1977 = 100).

On a seasonally adjusted basis, slight deflation (-0.2 percent) was recorded, following small increases of 0.3 and 0.6 percent in the prior two quarters (see Table 1). The quarterly changes had ranged between 1.2 and 1.6 percent throughout 1984 and the first half of 1985.

COMPONENT INDEXES

The decline in oil prices was the greatest, but not the only, factor causing inflation to decelerate.

Gains during the last 12 months in all major categories except entertainment were smaller than they had been just three quarters earlier (see Figure I). The annual inflation rate through first quarter 1986 was only one-third the 6 percent rate that had prevailed throughout 1984 and the first half of 1985.

See "CPI," page 2

1985 Home Sales Uneven Valleywide

Home sales in the Phoenix metropolitan area in 1985 nearly equaled the number of 1984 sales, but this stability did not encompass all Valley cities. The number of sales in Peoria, for example, jumped 21 percent, while declines between 10 and 16 percent occurred in Chandler, Gilbert and Sun City West (see Table 1). In each of the latter three cities, the decline followed an unusually large gain in 1984.

With 42 percent of the Valley's home sales, Phoenix again dominated in 1985. Mesa, the second-largest city, accounted for 15 percent of all sales. A particularly large share of new townhouse and condominium sales occurred in Mesa and Tempe; with 833, Mesa's total nearly equaled that of Phoenix. New single family home sales made up a disproportionately large share of all sales in Peoria and Sun City West.

In This Issue

4 Valley Home Features in '85
5 No. of AZ Businesses in '84
6 March Purchasing Survey
7 AZ Leading Index, February
8 AZ Economic Indicators

HOME PRICES

Price changes in 1985 also varied widely by city, ranging from increases of 10 percent in Scottsdale, Peoria and Sun City West to virtually no change in Tempe and Sun City.

See "Home Sales," page 4

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MAY 1986

TABLE 1
PERCENT CHANGES IN
METROPOLITAN PHOENIX CONSUMER PRICE INDEX

Expenditure Category	Relative Importance	Seasonally Adjusted from Preceding Quarter 1st 1985	2nd 1985	3rd 1985	4th 1985	1st 1986
ALL ITEMS	100.0	1.6	1.3	0.3	0.6	-0.2
Food and Beverages	18.7	1.6	0.9	-0.1	2.3	0.5
Housing	39.5	1.2	0.6	1.8	-0.4	0.7
Apparel and Upkeep	4.8	1.8	3.3	-1.9	2.5	-3.3
Transportation	21.2	2.0	2.0	-2.1	-0.6	-2.5
Medical Care	6.9	2.6	2.7	1.6	1.8	1.3
Entertainment	4.6	2.9	3.5	2.1	5.3	-1.7
Other Goods and Services	4.3	1.7	1.7	-0.2	1.2	1.7

TABLE 2
METROPOLITAN PHOENIX CONSUMER PRICE INDEX
First Quarter 1986

Expenditure Category	Index (1977=100) Last Quarter	This Quarter	Percent Change from Last Quarter*	Year-Ago Quarter
ALL ITEMS	191.5	191.6	-0.2	2.0
Food and Beverages	173.7	176.5	0.5	3.6
Food	174.0	176.8	0.5	3.3
Food at Home	170.9	174.7	0.7	3.1
Cereal and Bakery Products	188.5	194.5	1.8	6.1
Meats, Poultry, Fish, and Eggs	156.6	158.9	0.3	-1.8
Dairy Products	160.4	162.9	1.2	2.7
Fruits and Vegetables	190.6	186.9	-4.7	2.4
Other Food at Home	160.0	168.8	3.7	7.2
Food Away from Home	177.2	178.1	0.0	3.7
Housing	199.1	200.3	0.7	2.7
Shelter	215.4	217.2	0.8	3.8
Renters' Costs**	116.4	116.6	0.4	3.3
Homeowners' Costs**	108.3	109.5	1.1	4.2
Fuel and Other Utilities	168.4	164.2	-1.7	-1.4
Gas (piped) and Electricity	182.8	174.1	-3.4	-3.5
Household Furnishings/Operations	150.7	154.5	2.6	2.1
Apparel and Upkeep	148.1	144.0	-3.3	0.0
Transportation	186.0	180.9	-2.5	-3.1
Private Transportation	182.4	178.0	-2.4	-2.9
New and Used Cars	190.2	190.0	-1.3	-5.0
Motor Fuels	189.4	173.6	-4.5	-10.3
Public Transportation	244.1	227.8	-4.6	-6.0
Medical Care	261.2	266.8	1.3	7.5
Entertainment	197.2	197.1	-1.7	9.4
Other Goods and Services	173.4	175.9	1.7	4.4

*Seasonally adjusted. **Base period is second quarter 1983.

TABLE 3
METROPOLITAN PHOENIX CONSUMER PRICE INDEX
UNITED STATES AND COMPARATIVE CITIES
First Quarter 1986

Expenditure Category	Percent Change from Last Quarter* Phoenix	United States	Percent Change from One Year Ago Phoenix	United States	Denver	San Diego
ALL ITEMS	0.0	0.3	2.0	3.2	3.9	4.9
Food and Beverages	1.6	1.4	3.6	2.1	2.8	3.6
Housing	0.6	0.4	2.7	3.8	4.4	7.6
Apparel and Upkeep	-2.8	-3.4	0.4	1.1	-0.4	0.0
Transportation	-2.8	-1.2	-3.1	1.6	3.7	2.3
Medical Care	2.1	2.3	7.5	7.2	8.2	5.6
Entertainment	-0.1	1.1	9.4	4.1	3.4	3.1
Other Goods and Services	1.5	1.5	4.4	6.2	4.9	3.8

*Not seasonally adjusted.

Source (Tables 1, 2 and 3): Metropolitan Phoenix data compiled by the Bureau of Business and Economic Research, College of Business, Arizona State University, in cosponsorship with Valley National Bank; other data in Table 3 are from the U.S. Department of Labor, Bureau of Labor Statistics.

"CPI," from page 1

Food and Beverages

Prices of food and beverages rose a slight 0.5 percent (seasonally adjusted). After steady gains during the last two years, prices of food away from home did not change. Grocery store prices advanced 0.7 percent, but wide variations occurred among the food groups (see Table 2).

Partially offsetting a large fourth quarter 1985 gain, a 5 percent drop in fruit and vegetable prices resulted from declines in both the fresh fruit and fresh vegetable categories. After three successive quarterly declines, a slight gain was recorded in the prices of meats, poultry, fish and eggs. However, prices in every subgroup - beef, pork, other meats, poultry, fish and seafood, and eggs - were lower than they were one year earlier. The greatest grocery store increase occurred in prices of other-food-at-home items, primarily a result of a 27 percent jump in coffee prices.

Housing

Housing costs rose 0.7 percent, reversing the decline of fourth quarter 1985. Apartment rents did not change, after a slim advance the prior quarter. Rental increases were held down by the high vacancy rates resulting from the boom in apartment construction.

Prices of fuel and other utilities declined for the second successive quarter and were lower than they had been one year earlier. Natural gas rates dropped for the sixth straight quarter.

A relatively large gain was recorded in the category of household furnishings and operations. Inflation was the greatest in more than two years for furniture, household appliances, and radios and televisions.

Transportation

This category swung from annual inflation of 8 percent to deflation of 3 percent in just three quarters. Declining subcategories were numerous.

New car prices fell slightly in the first quarter and were only 2 percent higher than they were during first

quarter 1985. Used car prices declined for the fifth consecutive quarter, following a string of large increases in 1983-84. Gasoline prices dropped nearly 5 percent in the first quarter; further decreases are certain during second quarter 1986. Prices already were 10 percent lower than the level of one year earlier.

Other categories recording deflation during the last 12 months include vehicle parts and equipment (despite a large gain in first quarter 1986), vehicle maintenance and repair, vehicle finance charges, and public transportation.

Medical Care

Medical care inflation continued to slow, with a 1.3 percent advance, but this category still experienced the second highest inflation rate of the major categories. Much of the slowdown can be attributed to health insurance premiums, which have dropped from a nearly 50 percent inflation rate in 1984 to a 4 percent rate in the first quarter. Increases in hospital costs remained relatively moderate: 1.3 percent in the first quarter and 7.6 percent during the last 12 months. However, increases in the costs of professional services and prescription drugs were at double-digit annual rates.

Other Categories

Clothing prices fell 3.3 percent in the first quarter, negating the gain of the prior quarter. Entertainment costs also decreased but still were nearly 10 percent higher than they were one year earlier. Both reading materials and toys and hobbies experienced double-digit inflation.

COMPARISON AREAS

For the third consecutive quarter, the inflation rate in the Phoenix area was less than the national average (see Table 3). Advances in the Valley were comparable to those nationally in each major category except transportation and entertainment, in which deflation occurred locally.

The percent change from one year earlier was less than the national average for the first time since late 1983. Denver and San Diego, the comparison areas, also experienced higher inflation rates. Increases in housing and in transportation were less in the Valley than in each comparison area.

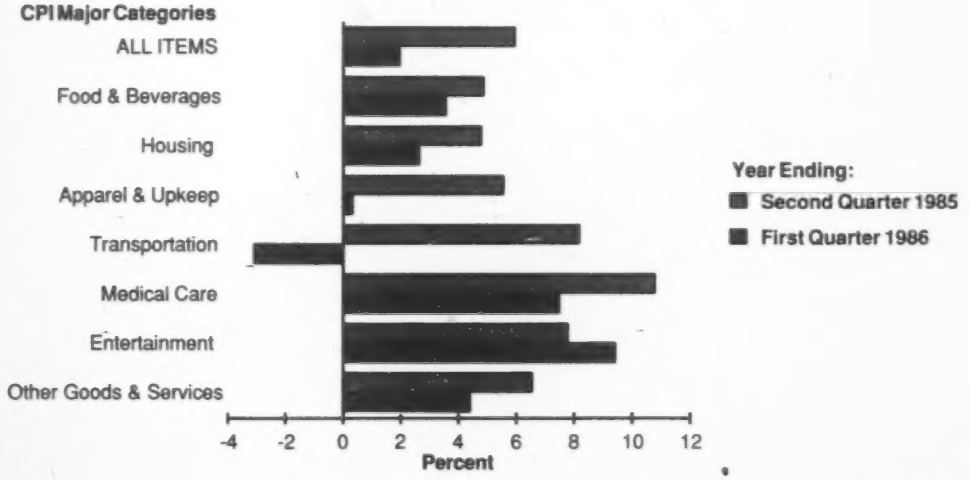
OUTLOOK

The recent inflation experience and the near-term outlook are more favorable than at any time since the mid-1960s, forcing further downward revisions to inflation forecasts. In the Phoenix area, at least one more quarter of slow inflation is likely, lowering the annual rate to less than 2 percent. However, acceleration is likely during the second half of 1986 and into 1987 if oil prices stop dropping and recover somewhat as expected. The falling dollar should cause rising price inflation in other goods.

The 1986 annual average inflation rate for metropolitan Phoenix should be less than 3 percent; it could fall to less than 2 percent. Such a rate should be equal to or less than the national average. However, a return to 6 percent inflation in 1987 remains possible.

– **Tom R. Rex**
Research Manager

FIGURE I
ANNUAL INFLATION RATE
Metropolitan Phoenix



Source: Bureau of Business and Economic Research, College of Business, Arizona State University, in cosponsorship with Valley National Bank.

"Home Sales," from page 1

A decline in Fountain Hills offset that town's large advance of 1984, demonstrating the erratic nature of median prices in areas where relatively few homes are sold.

Looking only at resale homes, which accounted for three-fourths of all sales in the Valley, and controlling for differences in the size of homes sold, presents a much different picture of price increases in 1985. The median price per square foot rose just 1.7 percent Valleywide. Declines occurred in Sun City and Paradise Valley, though the latter city experienced large gains in each of the prior three years. The greatest advances - just 6 percent - occurred in the rapidly growing cities of Chandler, Gilbert and Peoria.

The median sales price in 1985 exceeded $200,000 in Paradise Valley and $100,000 in Scottsdale but was less than $70,000 in Gilbert, Phoenix and Sun City. The same cities ranked near the top and bottom on a price-per-square-foot basis, as shown in Figure I.

Among the Valley's smaller towns, prices varied even more widely. These towns' median sales price and median price per square foot were usually less than those of the entire county, including values of less than $40,000 and $35 per square foot in El Mirage and Surprise. In contrast, the median sales price was nearly $100,000 in both Litchfield Park and the Carefree/Cave Creek area; the price per square foot in Carefree/Cave Creek was second only to that in Paradise Valley.

– **Tom R. Rex**
Research Manager

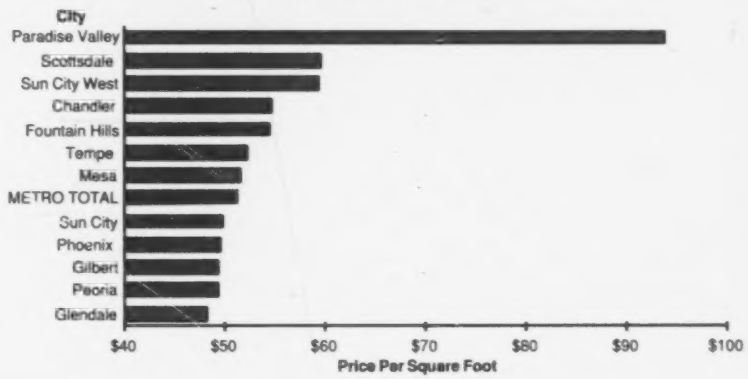
TABLE 1
1985 HOME SALES, MEDIAN SALES PRICE, AND PERCENT CHANGE FROM 1984
Metropolitan Phoenix, by City

City	Number of Sales	Percent Change	Median Sales Price	Percent Change
Chandler	3,455	-12%	$82,875	7.2%
Fountain Hills	317	13	80,000	-5.3
Gilbert	178	-16	67,000	3.2
Glendale	3,108	-1	74,950	4.1
Mesa	8,329	6	71,475	2.6
Paradise Valley	285	-8	252,500	5.9
Peoria	1,703	21	74,475	9.6
Phoenix	23,671	1	68,700	2.7
Scottsdale	4,202	2	100,650	10.0
Sun City	1,551	-7	67,000	-0.7
Sun City West	1,112	-16	90,000	9.9
Tempe	3,051	-3	76,000	0.1
MARICOPA COUNTY TOTAL*	56,380	1	74,000	4.2

*Total does not add to sum of cities because of exclusion from table of small cities and unincorporated areas.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

FIGURE I
MEDIAN PRICE PER SQUARE FOOT OF RESALE HOMES SOLD
Metropolitan Phoenix, 1985



Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

Features of Homes Sold in '85 Similar to '84

Stable conditions characterized the Phoenix metropolitan area's resale single family home market in 1985. Sales activity was comparable to that in 1984, and price gains continued to be modest. Further, the characteristics of homes sold during 1985, including size and amenities, greatly resembled those of dwellings sold during 1984. Certain features correlated with home price, even after adjusting the price for home size.

HOUSING CHARACTERISTICS

The median size of resale single family homes sold in both 1984 and 1985 was approximately 1,440 square feet. Nearly one-half of these residences had fewer than three bedrooms.

Adjusted for size, the 1985 median price per square foot of these smaller homes was roughly equivalent to that of much larger homes (those with four bedrooms and approximately 2,400 square feet) at about $55, 8 percent higher than the overall median. In between, average-size, three-bedroom homes typically were purchased for roughly $50 per square foot. Beyond 2,500 square feet, the median price per square foot grew with the size of the residence.

Homes with two or more full bathrooms, nearly 20 percent of sales in 1985, had a higher price per square foot (around $56) than homes with

fewer bathrooms. The most common arrangement, in nearly two-thirds of the homes, was one full bathroom and one partial bathroom.

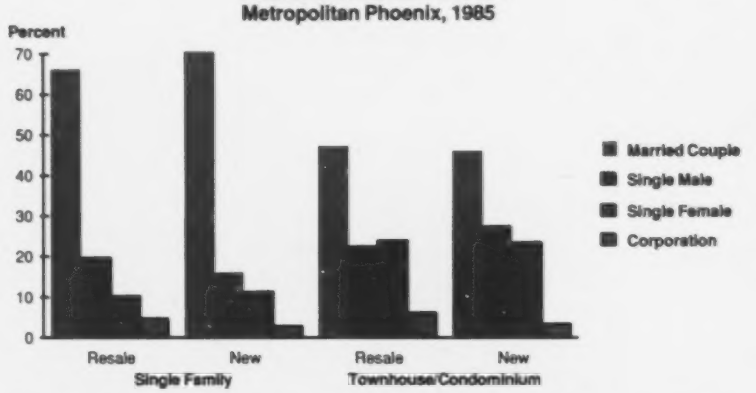
The age of a dwelling also correlates with its value. Of homes sold during 1985, the median price per square foot was approximately $48 for those built prior to the mid-1970s. A steady increase in the price per square foot was measured for homes less than 10 years old, reaching more than $60 for those constructed in 1984.

Little long-term trend is apparent in the size of homes built in the Phoenix area during the last 25 years. During periods such as the mid-1960s or late 1970s, larger homes (approximately 1,600 square feet) were constructed, while the median size of residences built since 1981 (approximately 1,460 square feet) is comparable to the size of homes constructed throughout most of the 1960s and 1970s.

The presence of features such as a garage, swimming pool or refrigerated air conditioning also relate to the value of a home. At $54, the square-foot price of residences with a garage (44 percent of sales in 1985) exceeded that of homes with a carport ($49) and that of homes with neither a carport nor a garage ($42). The latter accounted for just 9 percent of 1985 sales.

Homes with refrigerated air conditioning represented 80 percent of the resale single family homes sold during 1985, up slightly from the prior year; sales of homes without refrigeration declined. The median price of homes without refrigeration was only $45 per square foot.

FIGURE I
HOMEBUYER BREAKDOWN
Metropolitan Phoenix, 1985



Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

While the price per square foot of homes with a swimming pool was 7 percent higher than the overall median, dwellings with a covered patio or porch did not sell for more than the median. Approximately two-thirds of the homes sold had this feature.

HOMEBUYER CHARACTERISTICS

The profile of homebuyers, including the type and price range of homes they purchased, was similar in 1985 to 1984. Sales of dwellings to non-corporate buyers rose slightly. However, the number of homes of all types purchased by corporations dropped sharply during 1985, accelerating the trend toward a reduced corporate share of the housing market. This decline likely is due to growing recognition that housing is not an investment as it was during the 1970s.

Married couples purchased approximately two-thirds of the single family homes but less than one-half of the townhouses and condominiums that were sold during 1985 (see Figure I). While married couples bought more expensive single family homes than did single people, little difference existed in the prices of townhouses and condominiums they purchased.

– **Tom R. Rex**
Research Manager

Number of Arizona Businesses Jumps 28 Percent in '84

Arizona's business sector comprised 72,748 firms in 1984, according to data recently released by the U.S. Bureau of the Census. Governmental entities and self-employed individuals were not included in the count. Sixty-one percent of these establishments (44,397) were located in the Phoenix metropolitan area.

The number of establishments in Arizona rose sharply - 28 percent - from the number during the 1982 recession. The greatest increase occurred in the construction industry, with the number of firms rising 40 percent from the depressed 1982 level. The mining industry, dominated by the problems of the copper sector, experienced the smallest gain.

EMPLOYMENT

Total employment in Arizona, up 14 percent between March 1982 and March 1984, did not rise as much as the number of companies, indicating that many of the new businesses were quite small. With a 53 percent gain in employment, construction was the only industry in which the average number of employees per organization rose between 1982 and 1984.

Although the number of employees per mining firm dropped 36 percent, largely due to a 33 percent decline in the total number of mining workers, the average of 63.9 employees per mining concern still exceeded that of any other industry. The number of employees per enterprise was also larger than the all-industry average of 13 in the manufacturing and the transportation, communications and public utilities industries.

– **Tom R. Rex**
Research Manager

Purchasing Activity Intensifies in March

All indicators of Arizona economic activity were positive in March, for the second consecutive month. Purchasing managers again reported good increases in new orders received, production, employment, and purchase commitments (see Table 1). Inventory restocking occurred for the second month in a row, and vendor lead times lengthened further, as the rate of economic growth accelerated.

The first quarter ended on an upbeat note. The growth rate continued to intensify at a measured pace. As falling energy prices work through the system, and interest rates and the value of the dollar soften, the stage is set for even stronger growth over the balance of 1986.

PRICES

Prices paid for major purchased items rose again in March and at a slightly greater rate than in February. The March increase rate still was much lower than that recorded during the same month of 1983 and 1984, but it was somewhat higher than that for the last half of 1985. Although the increase rate continued to be low, relative to earlier years of this expansion, inflation still is present in industrial prices. However, the full impact of falling energy costs has not yet worked its way through the system. It seems likely that the Arizona economy will enjoy a year of very moderate price increases, which should help to ensure continued economic growth.

DELIVERY TIME

Delivery time on shipments from vendors continued to stretch, at a greater rate than in February. The increase rate in each of the past three months was greater than in all but one month of 1985, showing that the economy now is operating at a faster pace.

INVENTORIES

Inventory levels of purchased materials rose at the same rate in March as in February. A modest rate of restocking now is underway, necessitated by the increases in new order receipts and production. If the rate of inventory rebuilding accelerates over the next few months, economic growth will be further stimulated.

NEW ORDERS

New orders received by Arizona firms continued to grow at a greater rate than in all but two months of 1985. New order bookings came in at a healthy pace each month of the first quarter, as the growth rate stepped up.

PRODUCTION

Production also advanced in March, following the new order jump, although the increase rate was a bit lower than in February. Production showed very good strength during the first quarter and likely will continue to escalate to meet the increased flow of incoming orders.

EMPLOYMENT

Employment rose again, at a rate consistent with that of both January and February. The increases in each of the first three months of 1986 all were greater than in any month of fourth quarter 1985. Further additions to payrolls can be anticipated over the balance of the year.

PURCHASES

Purchases of materials and services by Arizona firms went up in March at the highest rate in close to two years. The higher new order and production rates, plus inventory building, are prompting Arizona firms to increase their purchase commitments, causing even further stimulation of the economy.

– **Harold Fearon**

Dr. Fearon is chairman of the Department of Purchasing, Transportation, Operations in the ASU College of Business and is the National Association of Purchasing Management Professor.

TABLE 1
MARCH PURCHASING SURVEY

	Percent of Purchasing Managers Indicating Each Response (March compared to February)		
Key Indicators	*Higher*	*Same*	*Lower*
Prices paid for major commodities	25	64	11
Delivery time from vendors	25	67	8
Purchased materials inventory level	34	40	26
New orders received	41	42	17
Production	40	44	16
Employment	24	61	15
Purchases	49	33	18

Source: Purchasing Management Association of Arizona and the Purchasing Management Association of Southern Arizona.

Arizona Purchasing Survey

Now in its 24th year of monthly reporting, Dr. Harold Fearon's survey of Arizona business conditions utilizes data from a questionnaire sent to members of the purchasing management associations of Arizona and southern Arizona. It asks them to indicate the direction of activity - higher, unchanged, or lower - of seven key measures of economic activity in the month just ended. These purchasing managers deal daily with supply, demand, and price factors in the marketplace; their aggregate readings have accurately charted the state's economic course for two decades, providing timely data on turning points.

Arizona Leading Index Reaches New High in February

The Arizona Index of Leading Economic Indicators rose moderately in February, following a small drop in January (see Figure I). February's 0.2 percent gain brought the index to a new high of 106.5 from a revised 106.3 in January.

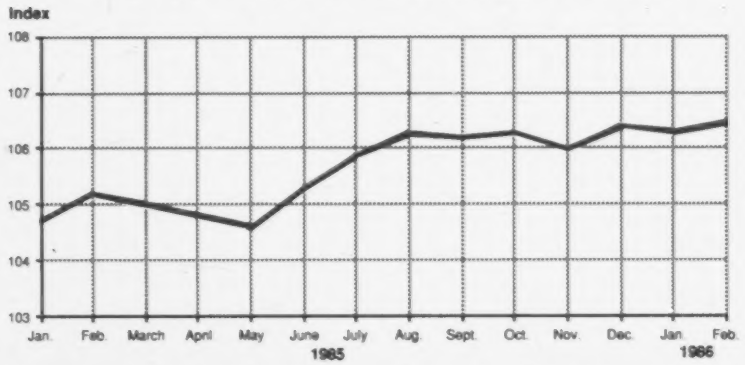
One-half of the index components climbed in February. The national money supply (M2) advanced strongly, following slight losses in three of four prior months. As the only component of the Arizona index to exhibit long-term growth, it is primarily responsible for the index attaining a new peak. No other component came close to matching its peak value.

The number of unemployment insurance claims fell in February (a positive indicator), offsetting a sharp rise in January (see Table 1). Despite monthly ups and downs, this indicator has been essentially unchanged since late 1983. The same is true of the average hours worked in the manufacturing industry, which barely changed in February, and of residential building permits, which were sharply down in February, negating a large gain in January. Changes in sensitive materials prices have been small and without consistent direction since mid-1984.

The five components derived from a monthly survey of Arizona purchasing managers were mixed in February, though the combined effect was positive. After generally declining between early 1984 and mid-1985, these indicators have rebounded in recent months, although the monthly changes have been erratic.

FIGURE I

ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

TABLE 1

NET CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE ARIZONA INDEX OF LEADING ECONOMIC INDICATORS

	Net Contribution+			
	Nov.	*Dec.*	*Jan.*	*Feb.*
Delivery Time*	-.02	.09	-.08	.03
Inventory Levels*	.03	.00	-.05	.09
New Orders*	.10	.05	-.07	.06
Production*	.01	.14	-.06	-.03
Employment*	.08	-.01	-.04	-.03
Residential Building Permits	-.25	.10	.32r	-.29
Unemployment Insurance Claims	-.15	.00	-.23	.16
Average Workweek, Manufacturing	-.05	-.14	.18	.02
Money Supply	-.05	.09	-.09	.32
Change in Sensitive Materials Prices	.01	.00	.01	-.02
OVERALL INDEX	-.28	.32	-.11r	.26

rRevised

+The net contribution of each component is calculated by multiplying the monthly percent change in its index by its relative importance.

*Based on indicators from the purchasing management associations of Arizona and southern Arizona.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

OUTLOOK

Between February 1985 and February 1986, the Arizona index rose 1.2 percent, indicating that moderate economic growth will continue throughout 1986. The Arizona Gross State Product probably will expand between 6 and 7 percent, slightly more than its long-term average. The chance of a recession is less than 2 percent.

The national Index of Leading Economic Indicators rose strongly in February, following a sizable gain in December and a large upward revision in January to a no-change-from-December level. Far more economic improvement is indicated for the nation than for Arizona in 1986, but the national economy slumped more than the Arizona economy between mid-1984 and late 1985.

- Tom R. Rex
Research Manager

Desktop-to-Desktop Delay

Your late receipt of the May *Arizona Business* is due to our transition to an in-house desktop publishing system. Computerization of the typesetting and layout phases of production will save the Bureau considerable time and money on future issues, while production quality will remain high.

ARIZONA ECONOMIC INDICATORS

	Month or Quarter	Value	Percent Change from Previous Period	Percent Change from Year Ago	Year-to-Date Value	Year-to-Date Percent Change from Year Ago
GROSS STATE PRODUCT						
(In Billions of Dollars, at Annual Rate)						
Arizona - Current Dollars	3rd Qtr.	46.814	6.7	7.4	NA	NA
Arizona - 1982 Dollars	3rd Qtr.	43.478	5.8	5.3	NA	NA
CONSUMER PRICE INDEX (1977 = 100)						
Metropolitan Phoenix	1st Qtr.	191.6	0.0	2.0	NA	NA
INDEX OF LEADING ECONOMIC INDICATORS (1977 = 100)						
Arizona	Feb.	106.5	0.2	1.2	NA	NA
BUILDING PERMITS						
(Total Dollar Value in Thousands)						
Maricopa County	Jan.	330,546	31	-5	330,546	-5
Pima County	Jan.	51,377	68	-12	51,377	-12
Balance of State	Jan.	51,186	20	8	51,186	8
Arizona	Jan.	433,109	33	-5	433,109	-5
TOTAL HOUSING UNITS AUTHORIZED						
Maricopa County	Jan.	3,444	22	-32	3,444	-32
Pima County	Jan.	582	22	-54	582	-54
Balance of State	Jan.	921	-12	-16	921	-16
Arizona	Jan.	4,947	14	-34	4,947	-34
HOME SALES						
Maricopa County - Number	Feb.	3,823	1	9	7,608	14
Maricopa County - Median Price	Feb.	75,000	2.7	6.1	74,000	3.3
HOUSING AFFORDABILITY INDEXES						
Metropolitan Phoenix - New Homes	4th Qtr.	80	-1.2	5.3	NA	NA
Metropolitan Phoenix - Resale Homes	4th Qtr.	93	3.3	13.4	NA	NA
MORTGAGE INTEREST RATES						
(Conventional, 30-year, Fixed-rate)						
Maricopa County	March	10.0	-4.8	*	NA	NA
POPULATION ESTIMATES						
(In Thousands)						
Maricopa County	4th Qtr.	1,856	1.1	4.9	NA	NA
Arizona	4th Qtr.	3,294	1.0	4.1	NA	NA
ELECTRICAL POWER SALES						
(In Millions of Kilowatt Hours)						
Arizona	Feb.	2,454.8	-8.7	-2.1	5,144.8	-2.2

NA = Not Applicable. * = Not Available.

Source: Bureau of Business and Economic Research, College of Business, Arizona State University.

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